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SENSITIVE
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SUBJECT: MFA PASSES PAPER DEFENDING FIRST KUWAITI'S WORK AT
EMBASSY BAGHDAD

1. (SBU) At a January 11 dinner hosted by the Amir in honor of President Bush, MFA Under Secretary Khaled Al-Jarallah requested that we pass a paper and DVD to Assistant Secretary Welch in support of First Kuwait Trading and Contracting Company's work in building the New Embassy Compound in Baghdad and other facilities in Iraq. The paper resembles a generic press release and does not appear to have been prepared by the MFA. The DVD, apparently produced by First Kuwaiti and bearing the State Department Seal and a Confidential label, contains video and still photos of

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various parts of the NEC with a musical soundtrack but no voice-over. We do not have any information as to how widely this DVD, which we will forward to Baghdad RSO via pouch, has been circulated. (Comment: Neither the video nor the paper adds anything new or significant to the First Kuwaiti - NEC controversy. End Comment.) The complete text of the paper follows.

2. (Begin text)

New U.S. Embassy construction - Baghdad design and build by First Kuwaiti Trading & Contracting Company

First Kuwaiti Trading & Contracting Company ("First Kuwaiti") is proud of its work in support of the Iraq war effort and reconstruction and believes that no other firm operating in Iraq has done more than First Kuwaiti to demonstrate the quality, efficiency and integrity of Kuwaiti business. Since 2003, First Kuwaiti has successfully completed over 200 contracts in support of Coalition Forces, including the construction of living compounds for the new Iraqi Army, division headquarters for the U.S. military, and other critical facilities. As a result, the company has received numerous commendations from U.S. military commanders and government officials. Unfortunately, the high-profile nature of this work has prompted critics interested in discrediting the U.S. Administration to make unfair and baseless allegations against First Kuwaiti.

In 2005, the U.S. State Department recognized First Kuwaiti's ability to complete substantial projects in the most difficult of circumstances when it chose the company to be the prime contractor for its New Embassy Compound ("NEC") in Baghdad. The 104 acre, 28 building compound is the largest U.S. embassy in the world and the most complex infrastructure project yet completed in wartime Iraq. The embassy required a huge logistical effort undertaken in hazardous conditions. Construction has occurred in the midst of a dangerous combat one with compromised supply routes and unrelenting risk to the lives and safety of First Kuwaiti workers.

Regardless of these and other challenges, First Kuwaiti's

portion of the embassy project has been substantially completed in just over two years within the original fixed price budget of \$474 million. While impressive, this success could not have been achieved without the active support of the Kuwait Government. Not only did the Kuwait Government facilitate the immigration of foreign workers for the project, it also assisted greatly with the re-export of construction materials; exempted the import and export of materials from customs; and provided extraordinary facilities for the staging of shipments to Iraq. For example, the NEC required casting over 150,000 cubic meters of reinforced concrete using more than 30,000 tons of steel. Because these commodities were not available in Iraq, they had to be transported from Kuwait, which was only made possible through the close cooperation between the Kuwait Government and the Government of the United States.

Despite First Kuwaiti's success with the NEC project, Democratic members of the U.S. Congress and other critics of the war in Iraq have used First Kuwaiti and the NEC project to attack the Bush Administration. By making sensational allegations about First Kuwaiti and the NEC project, partisan critics of President Bush have generated significant media attention and portrayed the U.S. State Department in a negative light. Of course, in the American political context, it is generally easier to make baseless allegations against a foreign company than against one located in the U.S. - a fact made worse by the State Department's refusal to permit First Kuwaiti to defend itself in the press.

The most damaging allegations made against First Kuwaiti are: (1) that First Kuwaiti's construction of the NEC has been substandard; (2) that First Kuwaiti trafficked foreign workers to the NEC site against their will; and (3) that First Kuwaiti's General Manager was involved in an illegal bribery and kickback scheme. All three of these allegations are baseless and ample evidence exists to support that

conclusion.

-- First, a powerful Democratic congressional committee chairman and strong critic of the Administration alleged that First Kuwaiti installed counterfeit wiring at a diplomatic guard camp next to the NEC and that there are widespread deficiencies in the NEC's fire suppression system. These claims are absolutely false. the U.S. State Department itself investigated the wiring allegation and concluded that "no counterfeit wiring was found." Similarly, First Kuwaiti has ensured that the NEC's fire suppression system meets the State Department's standards, and the system has been fully inspected by a team of independent engineers.

-- Second, congressional Democrats highlighted implausible claims that First Kuwaiti brought laborers from foreign countries to work at the NEC against their will. These allegations are also false. Because of the serious nature of the allegations, they were investigated thoroughly by three different entities: the Philippine Government, the Inspector General of the U.S. State Department, and the Inspector General of the Multinational Force - Iraq. All three of these investigations concluded that the trafficking allegations made against First Kuwaiti were entirely without merit.

-- Finally, critics of the war and Democratic members of Congress have alleged that First Kuwaiti "participated in an illegal kickback scheme to obtain subcontracts under the Army's multi-billion logistical support contract." This false allegation is based on an unsubstantiated assertion by a former KBR contracting officer who claims he accepted \$10,000 from First Kuwaiti's general manager in violation of U.S. law. We expect that this matter is under review by the U.S. Attorney's Office in Rock Island, Illinois, where the KBR employee was indicted. Though no charges have been brought against First Kuwaiti, it is troubling that the U.S. Government could pursue a prosecution against a Kuwaiti company for actions that allegedly occurred entirely within Kuwait. Moreover, KBR is currently using these allegations

as an excuse to suspend payment of nearly \$90 million to First Kuwaiti for materials supplied and work completed under unrelated contracts.

The U.S. State Department has declared that the NEC project has been substantially completed in just over two years and within budget, and First Kuwaiti is currently awaiting the Baghdad embassy's final acceptance of the complex. We are confident that the NEC will serve as a model for U.S. embassy construction around the world and sincerely hope that partisan allegations against First Kuwaiti by critics of President Bush and the war in Iraq will not adversely affect ongoing relations between the United States and the State of Kuwait.

(End text)

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